Free, ad based model

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How the free and ad based model works

- This business model is used by websites that are free to use but are making their money through displaying ads on their site
- **How it works: You have a web or mobile property and your currency is foot traffic**

  Examples: Facebook, Twitter, The New York Times
- The way you get paid depends on 3 different systems:
  - CPC (Cost Per Click) - you get paid for every person who clicks on the ad
  - CPA (Cost Per Action) - you get paid when a person does something on the website after they click on the ad (signs up, purchases an item)
  - CPM (Cost Per Mille) - you get paid for a thousand impressions (when the ad gets viewed 1000 times)

- You might have ads running on one or two different systems on your website at the same time

- CTR (Clickthrough rate) - the percentage of people who see an ad and then click on it

- Total visitors - the total number of people who visit your site

- If you're building a free, ad based model, you're going to include all these concepts

See you next lecture!

Affiliate model

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How the affiliate model works

- **How it works: An affiliate operates a business whereby they sell someone else's product**
- They're in charge of promoting the product and getting people to buy it, and they get a percentage of the revenue

  Example: Herbalife

- Affiliate commissions range between 25%-75%
- The methods that affiliates use:
  - posting ads directly on their site
  - sending out emails to their lists
  - writing posts that highlight the product

See you next lecture!

Freemium model

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How the freemium model works

- Freemium = Free + Premium
- **How it works: You offer your main product for free, but then the user has to pay to access premium or extra features**

  Examples: Evernote, Spotify, YouTube

- Free products are the easiest to get users for
- If they are already a user of your product / service, there's a better chance that they might buy something from you
- The most successful products using this model are the ones that either become indispensable to your daily life or become a hassle to switch away from

See you next lecture!

Subscription model

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How the subscription model works

- **How it works: The user pays a regular amount of money every month to use the product or service**
- It might start off as free and then a percentage of the users become paid subscribers
- You can have a single subscription model or multiple subscription plans, where the customers get different services depending on how much they pay
- If you have multiple subscription plans, you have to model out each one of them

See you next lecture!

Pay per use model

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How the pay per use model works

- **How it works: Customers pay every time they use the product / service**

  Example: iTunes

- You might have a lower setup fee and higher pay per use fee, or a higher setup fee and lower pay per use fee

- How much the customers use the product will determine your revenue

See you next lecture!

Free product, pay for service model

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How the free product, pay for service model works

- **How it works: You give the product for free, then you charge people for using it**
- You will have startup costs in order to make the product and distribute it
- Only a percentage of the people who receive the product will end up paying to use it
- It will take a while until you start making profit and recover the startup costs

See you next lecture!

Tiered pricing model

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How the tiered pricing model works

- This model is similar to the subscription model
- **How it works: You have different tiers of prices for different services**
- You have to separate each tier in your model
- Take into account that, in time, a percentage of your clients might be moving from one tier to another

See you next lecture!

Base plus features model

FINANCIAL MODELING

LECTURE SUMMARY

Covered in this lecture:

How the base plus features model works

- **How it works: You offer the basic product for a lower price, and then the option to purchase more features**

  Example: Car manufacturers

- In your model, make calculations for each feature and then for all the possible combinations that a customer might purchase

See you next lecture!